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LOCAL GOVERNMENT COMMISSION

Senate of Pennsylvania

TO: All Senators **DATE:** June 20, 2012

FROM: Senator John P. Blake

SUBJECT: Co-sponsorship – Innovate in Pennsylvania Program

I will soon be introducing legislation to establish the "Innovate in Pennsylvania Program". The intent of this legislation is to provide a new and predictable source of funding for early-stage venture capital investment that will create family-sustaining jobs and develop innovative technologies through an estimated $140 Million of new investment in early stage companies in Pennsylvania. The recipient and manager of all funding from the Innovate in Pennsylvania Program will be the Ben Franklin Technology Development Authority (BFTDA) which engages other venture capital funds and which works through a statewide network of regionally-based Ben Franklin Technology Partners.

The first $500,000 of 'seed' capital is typically the hardest for promising technology start-up companies to obtain as start-ups are often considered too risky for traditional bank financing and, particularly in our current risk-averse investment environment, too risky even for many sophisticated and well-capitalized venture capital funds. Following initial Ben Franklin investments, however, private investors become very interested. Because of its established track record, we know that for every dollar the Ben Franklin Technology Partners have invested in their portfolio companies, $24 of follow-on – that is, leveraged non-state, private financing -- has been attracted to support those companies.

Between 2006 and 2010 in Pennsylvania 145 new companies were formed; 6,010 jobs were created; 3,285 jobs were retained; and $1.8 Billion in post-Ben Franklin financing was secured – all directly attributable to Ben Franklin early stage investments. All of these numbers point to economic growth and incremental revenue to support constrained local and state budgets.

After the significant downturn in global, national and state economies and the inevitable budget cuts forced by the recession over the past 5 years, our world-class state programs that have supported innovation and early stage investment in new commercial technologies and industries – BFTDA and the Ben Franklin Technology Partners – have sustained significant reductions in state appropriations. State support for these programs dropped from $53 Million prior to the 2008 financial collapse to approximately $14 Million in 2011.

Despite these cuts, 35 new companies were formed and 867 companies were assisted in 2011 through Ben Franklin investments. It is estimated, however, that 100 additional companies which were very good investment risks would have received a Ben Franklin Technology Partners investment had the state allocated an additional $14 Million. That is significant lost opportunity to foster growth. Companies that could be reducing our unemployment numbers are instead stalled in a pre-revenue stage with great promise but no capital to implement good business plans or to patent or commercialize their ideas.

According to the National Venture Capital Association, Pennsylvania – which had been a perennial top-three among states in terms of venture capital investment from 2000 to 2007 – slid to 10th for overall venture capital investment in 2011. In addition, data shows that Pennsylvania's share of total U.S. Venture Capital Investment has dropped from 3.30% in 2005 to 1.83% in 2010. We are losing ground and competitive advantage in fostering our future job creators.

As such, this bill is intended as an innovative approach to make additional investment capital available for properly qualified and vetted early stage Pennsylvania companies. When implemented, this program will assure adequate funding to the Ben Franklin Technology Development Authority, while acknowledging our still-struggling economy and the scarcity of state dollars in our current year budget debate.

The Innovate in Pennsylvania Program will offer $175 million of deferred premium tax credits to qualified insurance companies that pay the state's insurance premium tax. For every $1 of tax credit offered, insurance providers will receive an up-front discount. The difference between the $175 million in tax credits offered and the potential $140 million in investment capital raised would be the discount offered to insurance companies that purchased them. Investments received from participating insurance companies will be allocated to the Ben Franklin Technology Development Authority and subsequently, into private venture capital firms through its Venture Investment Program for market-based investment decisions. Forty percent of the net proceeds will be directed to the Ben Franklin Technology Partners to support its mission of statewide early stage investment.

Insurance companies will be required to bid on tax credits by offering a set amount per tax credit dollar -- with the highest bidders selected until all credits are allocated. The tax credits will be distributed to participating insurance companies when the capital is contributed, but may not be used until 2016. Tax credits will be issued starting in year 2016 at an amount of $35 Million per year. The bill will have an element of revenue neutrality as the actual use of the tax credits from the state will be deferred for three years. More specifically, and based upon past, credible performance data, venture capital investments made in 2013, 2014 and 2015 using capital raised from the insurance industry through the Innovate in Pennsylvania Program will generate private sector leverage, employment and tax revenues that will offset the budget impact of the credits at such time they are claimed by insurance companies starting in 2016.

This concept is supported by the Insurance Federation of Pennsylvania not only for its economic development impact but because participating insurance companies would be able to show the credit as a reserve on their books until 2016 at which time they would begin using the tax credits acquired in the previous bidding process. A similar model was recently enacted in Maryland but it is not yet implemented. Pennsylvania is in a far more advantageous position than Maryland because we are ready to execute this model through an established, capable, mature and accountable managerial and oversight entity – the Ben Franklin Technology Development Authority – and the proven, successful track record of the Ben Franklin Technology Partners throughout the state.

It is important to note that a number of recent state tax incentive and economic development programs have, by necessity, concentrated in particular geographic regions of Pennsylvania. Marcellus Shale impact fee revenues properly benefit drilling counties; refineries in Philadelphia, once at risk of closure, are now, fortunately, poised for sustainability and future growth; and the prospective economic impact of the ethane cracker plant in Beaver County can reindustrialize an economically challenged region of Southwest PA. This tax credit program would have statewide impact due to the Ben Franklin framework which makes early investments on a statewide basis. Further, the Commonwealth, through this program, can take advantage of both the traditional and new energy industries of Pennsylvania by accelerating investment in the new technologies that will drive economic growth and employment in these industries going forward. Let's drive innovation in Pennsylvania and establish a predictable source of investment capital to grow small business and jobs in this Commonwealth.

If you would like to co-sponsor this legislation, please contact my office at 717-787-6481. If you have any questions, please contact Kyle Mullins at kmullins@pasenate.com.